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Circular Letter

TO: COUNTY SUPERINTENDENT OF SCHOOLS AND INDIVIDUAL
SCHOOL DISTRICTS

SUBJECT: EXAMPLE OF REPORTING COMPENSATION AS EARNED DURING
JULY AND AUGUST

CalPERS provides school employers the following information regarding reporting compensation for July and August due to continued noncompliance in reporting methods. The purpose of this Circular Letter is to emphasize proper reporting of payroll for employees who work any days during July or August and illustrate how incorrect reporting can impact your employees' final compensation and the payment of retirement benefits.

The California Government Code Section 20630 requires that employers identify the pay period in which compensation was earned, regardless of when it is paid or reported to CalPERS. This means payroll must be reported for employees who are compensated for time worked in the summer months of July and August, even if they are paid for that time in another month.

For more information on the subject of reporting compensation as earned, please refer to Circular Letter 200-204-05, dated January 19, 2005 on our Web site, and *Government Code Section 20630*. This section states in part: "...When compensation is reported to the Board, the employer shall identify the pay period in which the compensation was earned regardless of when reported or paid..."

Reporting compensation as earned impacts the calculation of retirement benefits. Final compensation is based on the average 12 consecutive months of payrate data received from the employer, irrespective of actual earnings. The final compensation is determined by adding all twelve consecutive months of payrate data and dividing by 12. Following are two examples of an employee that works two days in August, one of the "summer months."

Example #1 demonstrates the employer correctly reporting the two days of compensation earned in August on the August payroll. This employee's final compensation calculation will include reported payrates for 11 months due to the payrate reported in the month of August.

Example #1 – Correct Reporting of Compensation as Earned:

| Month | Payrate | Earnings | Service Credit |
|---------------|--------------------|--------------------|----------------|
| July | \$0.00 | \$0.00 | 0.000 |
| August | \$2,600.00 | \$236.00 | 0.090 |
| September | \$2,600.00 | \$2,484.00 | 0.955 |
| October | \$2,600.00 | \$2,484.00 | 0.955 |
| November | \$2,600.00 | \$2,484.00 | 0.955 |
| December | \$2,600.00 | \$2,484.00 | 0.955 |
| January | \$2,600.00 | \$2,484.00 | 0.955 |
| February | \$2,600.00 | \$2,484.00 | 0.955 |
| March | \$2,600.00 | \$2,484.00 | 0.955 |
| April | \$2,600.00 | \$2,484.00 | 0.955 |
| May | \$2,600.00 | \$2,484.00 | 0.955 |
| June | \$2,600.00 | \$2,484.00 | 0.955 |
| | | | |
| Totals | \$28,600.00 | \$25,076.00 | .964 |

Final Compensation \$28,600.00 divided by 12 = \$2,383.00

Example #2 shows the employer incorrectly reporting the two days of compensation earned by combining the two days worked in August on the September payroll. This employee's final compensation calculation will not include the payrate that should have been reported in the month of August and will result in a final compensation amount that is \$216.00 lower than the correct reporting method.

Example #2 – Incorrect Reporting of Compensation as Paid:

| Month | Payrate | Earnings | Service Credit |
|---------------|--------------------|--------------------|----------------|
| July | \$0.00 | \$0.00 | 0.000 |
| August | \$0.00 | \$0.00 | 0.000 |
| September | \$2,600.00 | \$2,720.00 | 1.040 |
| October | \$2,600.00 | \$2,484.00 | 0.955 |
| November | \$2,600.00 | \$2,484.00 | 0.955 |
| December | \$2,600.00 | \$2,484.00 | 0.955 |
| January | \$2,600.00 | \$2,484.00 | 0.955 |
| February | \$2,600.00 | \$2,484.00 | 0.955 |
| March | \$2,600.00 | \$2,484.00 | 0.955 |
| April | \$2,600.00 | \$2,484.00 | 0.955 |
| May | \$2,600.00 | \$2,484.00 | 0.955 |
| June | \$2,600.00 | \$2,484.00 | 0.955 |
| | | | |
| Totals | \$26,000.00 | \$25,076.00 | .964 |

Final Compensation \$26,000.00 divided by 12 = \$2,167.00

As illustrated by the two examples, correctly reporting compensation in the pay period in which it was earned will result in a correct final compensation amount for this employee, because payrate is reported for 11 months of the final compensation period instead of ten. We hope you find this clarification helpful. If you have questions, please call our Employer Contact Center toll free at **888 CalPERS** (or **888-225-7377**).

A handwritten signature in cursive script that reads "Lori McGartland".

Lori McGartland, Chief
Employer Services Division